Required Report - public distribution

Date: 10/20/2009
GAIN Report Number: IN9136

India

DAIRY AND PRODUCTS ANNUAL

2009

Approved By:
Holly Higgins

Prepared By:
Deepa Dhankhar

Report Highlights:
MY 2010/11 milk production is forecast to increase by 3.9 percent to 113 million tons assuming near-normal monsoon and increasing demand for dairy products. Late monsoon rains and the beginning of the flush season (September-March) are expected to revive total milk production in MY 2009/10 to 109 million tons. Indian MY 2008/09 dairy product imports more than doubled to over 9,000 tons exclusively due to increased butter imports of almost 5,000 tons. Further expansion of butter and other fats import demand is forecast to a record level of 30,000 tons in MY 2009/10 due to increased lean-season (April-August) milk supply shortages and rising demand for full-cream milk and milk fats. The Government of India's sanitary conditions governing the import of dairy products effectively prohibit dairy imports from the United States.

Commodities:
Select

Production:
MY 2010/11 milk production is forecast to increase by 3.9 percent to 113 million tons compared to MY 2009/10 milk production of 109 million tons assuming a near-normal monsoon. Strong farm-gate prices and rising domestic demand for a variety of milk products, supported by the growing disposable income of India's sizable middle-income consumer group are the major factors driving increased milk production. India's milk production was initially estimated to be below normal during MY 2009/10 due to a weak monsoon and high fodder prices. However, major dairy producers are optimistic that the late monsoon rains and the beginning of the milk production flush season (September-March) will compensate for the reduced supplies experienced during the first half of the year.

The MY 2010/11 production of non-fat dry milk (NFDM) is forecast at 400,000 tons compared to 370,000 tons in MY 2009/10. Increased demand for reconstituted milk during the lean season (April-August) and consistent exports of NFDM are the major drivers supporting increased production. Combined butter and ghee (clarified/ melted butter) production is forecast to increase from 3.9 million tons in MY 2009/10 to 4.1 million tons in MY 2010/11. Butter and ghee are part of the daily Indian diet, especially in northern India. Ghee is used in cooking and in the preparation of sweets by many households in India.

India is a low-cost milk producer due to the inexpensive maintenance and feeding costs associated with local cow breeds. Dairy production is an important direct and supplementary source of income for around 75 million rural families (mainly comprising small farmers and landless laborers), which accounts for around 98 percent of total milk production. The top ten milk producing states of Uttar Pradesh, Rajasthan, Punjab, Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh, Bihar, Tamil Nadu, and Haryana account for more than 80 percent of India's milk production. India is the world's largest producer of bovine milk. Encouraged by the fat-based pricing system and the growing export demand for buffalo meat, the share of buffalo milk in total milk production is substantial (around 57 percent). Buffaloes can be used for milk production, meat, and also as a work animal for small farmers. Additionally, buffalo milk has a higher fat content than cow's milk resulting in higher prices per liter.

Various state cooperatives have well-established milk brands and market milk in a standardized package design (orange for full-cream milk with six percent fat and nine percent solids-not-fat (SNF), blue with three percent fat and 8.5 percent SNF, yellow for with 1.5 percent fat and nine percent SNF, and purple for skimmed milk with not more than 0.5 percent fat and 8.7 percent

SNF). These colors remain a common package color for all dairy cooperatives and are characterized on the basis of different fat and SNF percentages as prescribed by the Prevention of Food Adulteration Act. Several organized players like the Gujarat Cooperative Milk and Marketing Federation (GCMMF), Mother Dairy, Britannia, Nestle and other state cooperatives, and private companies produce many processed milk products under the popular brands of Amul, Mother dairy, Verka, Vita, Britannia, Paras, Nova, Nestle, Debon etc.

PRODUCTION DEVELOPMENTS AND POLICY

The GOI's efforts to increase the productivity of dairy animals are mainly focused on building cooperative infrastructure, revitalizing dairy cooperatives, and creating an infrastructure for the production of high quality milk and milk products. Accordingly, the government's approved outlay for the 11th five year plan (2007-2012) is around USD 163 million for dairy development activities. The Ministry of Agriculture has identified an 11th five-year plan approach for the dairy sector to achieve an overall desired growth of five percent per annum. Despite these goals, the Indian dairy sector is working overcome challenges like low productivity of dairy animals, lack of effective quality and hygienic control systems, and creating an enhanced network of cold chain infrastructure from the producer to the consumer.

The Milk and Milk Products Order (MMPO) of 1992 was formerly regulated by the Ministry of Food Processing Industries. The MMPO is now regulated by the Food Safety and Standards Authority of India (FSSAI) and has been subsumed as the Milk and Milk Products Regulation (http://www.fssai.gov.in/MMPO.aspx) in 2009. The MMPO contains standards for the licensing of milk processors and regulates the standards for domestic production and sale of milk products. It also enforces sanitary controls at all stages of milk products production. The FSSAI has convened an expert group on milk and milk products in order to create an action plan and strategy for ensuring the safety and quality of milk and milk products, including three major goals:

- Assessment of food legislation at the national level,
- Preparation and implementation of a national food safety program, and
- Evaluation of food safety activities.

Additional details on the FSSAI's strategy and action plan for ensuring safety of milk and milk products can be accessed from:
http://www.fssai.gov.in/ViewContentDetails.aspx?ContentId=11&CategoryId=5 .

Consumption:
Food price inflation and the global economic slowdown did not have a major impact on the consumption of milk products (especially fluid milk) in India because milk is a basic staple and demand is relatively inelastic. Post forecasts fluid milk consumption in MY 2010/11 to increase by 3.9 percent to 113 million tons compared to 109 million tons in MY 2009/10. The major factors driving milk consumption growth are a growing population, increasing purchasing power of the middle-income consumers, and higher demand for value-added milk products. The branded milk segment is expected to grow at a rate of five percent as more and more people are becoming health and quality conscious. The per capita availability of milk in India is estimated to be above 250 grams (0.24 liters) per day.

Demand for probiotic, low-calorie and low-sugar dairy products is also increasing steadily. Many large dairy companies like Nestle, Mother Dairy, GCMMF etc. are manufacturing probiotic milk and yogurt along with other value-added products like low fat cheese, UHT milk, probiotic curd, low sugar or sugar-free ice-creams, etc. The entry of various renowned Indian business groups into organized food retail is also expected to boost demand for branded dairy products. Some Indian dairy cooperatives (from the states of Gujarat, Punjab, Haryana, Karnataka, Andhra Pradesh, etc.) and companies like Mother Dairy and Heritage have already established exclusive sales outlets to offer better services to their consumers.

Rural households consume almost 50 percent of India's total milk production [1] . The remaining 50 percent of milk production is sold in the domestic market. Of the share of milk sold in the domestic market, almost 50 percent is used as fluid milk, 35 percent is consumed as traditional products (paneer cheese, yoghurt and milk based sweets), and 15 percent is consumed for the production of butter, ghee, milk powder and other processed dairy products (including baby foods, ice cream, whey powder, casein, and milk albumin). The organized dairy sector consumes 15% of India's total milk production, which it uses primarily for the production of liquid milk, butter, cheese, and milk powder. Although some traditional products are manufactured by the organized sector, this market is dominated by the unorganized sector. As a result, organized sector Indian style paneer cheese production is only estimated to be 22,000 metric tons. Western style cheese consumption holds an even smaller niche.

[1] *According to the National Dairy Development Board (NDDB)*

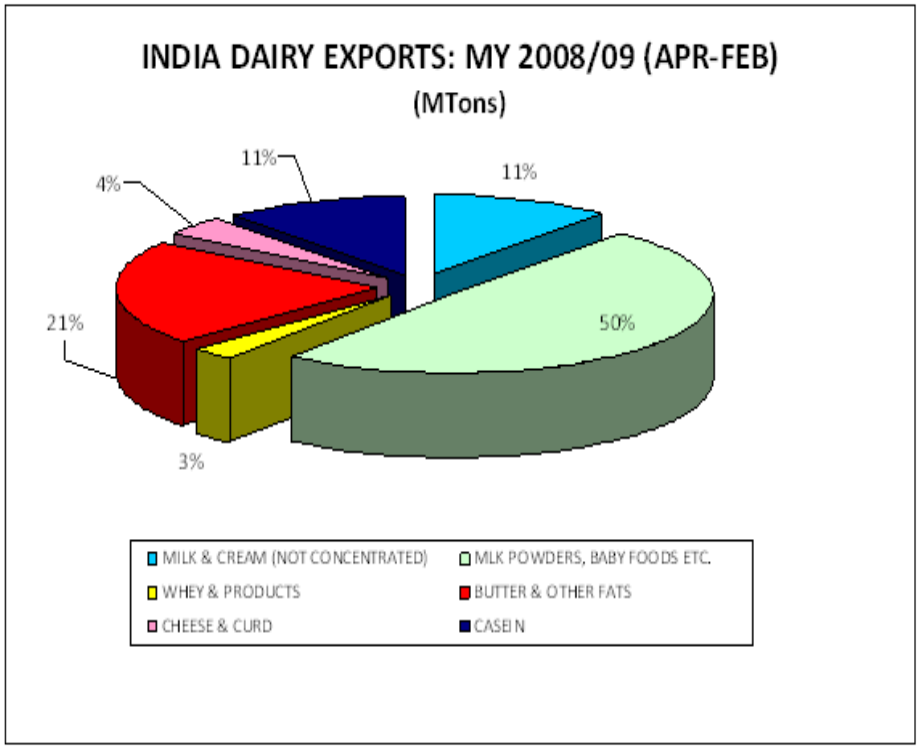
Trade:

MY 2010/11 exports of NFDM are forecast to increase marginally to 35,000 tons compared to 30,000 tons in MY 2009/10. Strong domestic demand for milk powder is expected to keep export figures lower during MY 2009/10 and during MY 2010/11. The MY 2008/09 export figure for NFDM is revised down to 35,000 tons to reflect data published by the Ministry of Commerce, GOI. Exports of butter for MY 2010/11 are forecast by Post at 10,000 tons compared to 5,000 tons in MY 2009/10. The MY 2008/09 export figure for butter is revised up to 15,000 tons according to the data published by the Ministry of Commerce.

Despite being the world's largest milk producer, India's share in the world dairy trade is almost negligible. However, India is a net exporter of dairy products, with MY 2008/09 export volumes equating to more than 70,790 tons. India exports various categories of milk products including milk powders, baby foods, butter and other fats, casein, milk and cream, cheese, and whey products. Milk powders and baby food exports constituted around 50 percent of the total dairy exports in volume terms during MY 2008/09, followed by butter and other fats, casein, milk and cream and other processed dairy products. India exported more than 50 percent of its total dairy products shipments to the United States, Bangladesh, U.A.E., China, Egypt, and Singapore during MY 2008/09. India exported more than USD 100 million [1] in dairy products (including casein) to the United States during MY 2008/09. If the trade prohibition on U.S. dairy products is resolved, there is market potential for U.S. dairy products to India, given growing consumer

demand. The GOI has designated the National Productivity Council (NPC) and the Export Inspection Council (EIC), Ministry of Commerce and Industry, GOI as quality auditors for conducting periodic inspection of units registered under the MMPO to ensure compliance with sanitary, hygienic, and food safety measures. Registration of dairy plants with the EIC is mandatory for export quality certification.

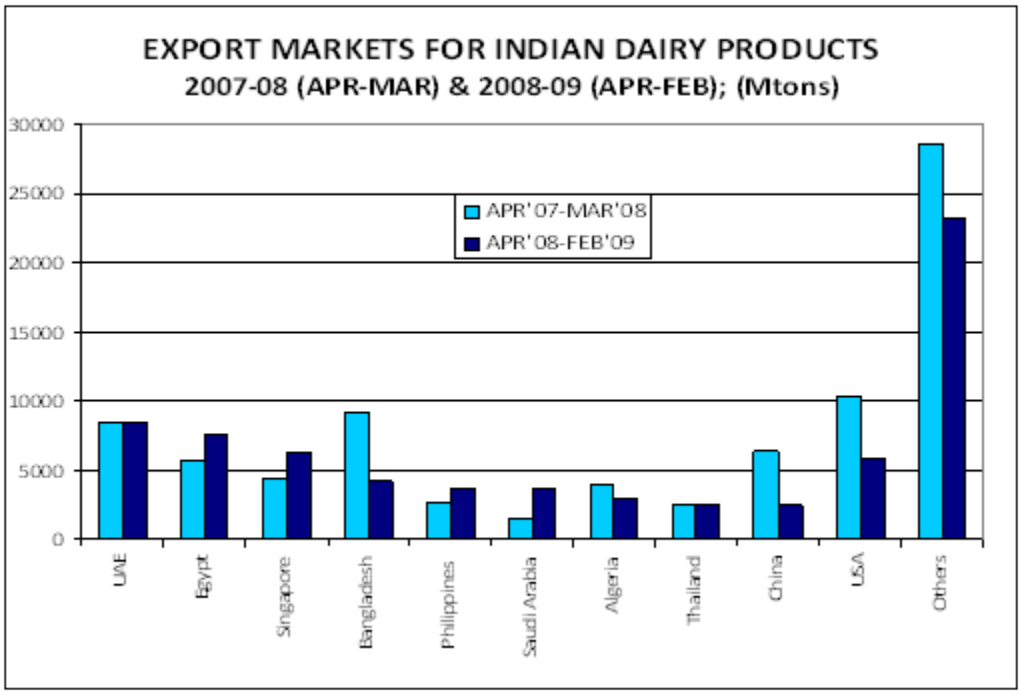
Figure 1: Indian Exports of Dairy Products in MY 2008/09 (Apr.-Feb)



Source: Global Trade Information Services database (GTIS)

Indian imports of dairy products are not substantial in volume. The volume of imports during MY 2008/09 was approximately 9,130 tons. More than 80 percent of dairy imports are butter and fats, whey and products, milk and cream, milk powders, and baby foods. However, increased lean-season milk supply shortages and rising demand for full-cream milk and milk fats are expected to lead to a rise in future imports of non-fat dried milk (NFDM) and butteroil. India is expected to import around 30,000 tons of butter and other fats during the current year compared to an import of 5,000 tons during MY 2008/09. The National Dairy Development Board (NDDB) was planning to import milk powder under the tariff rate quota (please see table C for details on the tariff rate quota) but high international prices dampened import prospects. Strong demand for imported processed cheese and other high-value dairy products and ingredients by luxury hotels, food processing industries and fast food chains is also expected to track with increasing consumer income, exposure to international foods, and expansion of the Indian food retail sector. Imports of high-value dairy products such as lactose and whey powder may also increase given the fast growth in the food processing, pharmaceutical, nutraceutical, and health food industries.

Figure 2: Country-Wise Exports of Indian Dairy Products in MY 2008/09 (Apr.-Feb) & MY 2007/09 in Metric Tons



Source: Global Trade Information Services database (GTIS)

[1] *Source: Department of Commerce, U.S. Census Bureau*

Policy:

Imports of milk and cream, infant formula, whole milk, condensed milk, yogurt, buttermilk, whey, dairy spreads, ghee, and cheese are permitted without any quantitative restrictions. However, in most cases import permits are required. For the import of livestock products (including milk and milk products), an applicant has to apply at least 30 days in advance with form A/B (http://www.dahd.nic.in/index2.htm). The sanitary import permit is issued after conducting a risk analysis based on the disease situation of the exporting country. Skimmed milk, infant formula, whole milk, milk for babies, and condensed milk must also adhere to standards set by the Bureau of Indian Standards (BIS). U.S. exports of dairy products to India are effectively prohibited under India's current dairy sanitary import protocol. Please see table B for details on the tariff rates of various dairy products.

The Prevention of Food Adulteration Act (PFA) of 1954, (along with the PFA Rules of 1955, as amended) is the baseline law intended to protect India against impure, unsafe, and fraudulently labeled foods. This is the most comprehensive national food law in the country. The PFA standards and regulations (http://mohfw.nic.in/pfa%20acts%20and%20rules.pdf) apply equally to domestic and imported products. The law, previously enforced by the Director General of

Health Services, Department of Health (DH), Ministry of Health and Family Welfare (MOHFW), GOI, is now enforced by the Food Safety and Standards Authority of India.

The rules under the Export (Quality Control and Inspection) Act, 1963 (http://commerce.nic.in/export_quality_control.htm) are to be followed by Indian dairy plants interested to export their products. The rules under this act list the good hygienic practices and good manufacturing practices recommended for dairy export plants.

On December 1, 2008, the Ministry of Commerce released an extension to its earlier notification to prohibit the import of dairy products (including milk and milk products) from China for six months, extending up to June 23, 2009. The import ban was based on the recommendation of the Food Safety and Standards Authority (FSSAI) and was taken as a precautionary measure after melamine adulteration was found in Chinese milk powder imports. The FSSAI further extended the ban [1] on imports of milk and milk products including chocolates and chocolate products and candies/confectionary/food preparations with milk and milk solids as an ingredient from China for a further period of six months starting from June 24, 2009 to December 24, 2009.

According to the Indian dairy industry, GOI's trade policies are not conducive for the export of dairy products. The Ministry of Commerce issued a notification on April 24, 2008, wherein specific milk and milk products were no longer entitled to benefits under an export subsidy scheme [2] 'Focus Market Scheme' (FMS) (DGFT Notification No 6 (RE-2008), which can be accessed at: http://dgft.delhi.nic.in/). The Indian dairy industry is against the withdrawal of this subsidy scheme as such a measure will affect their export competitiveness, especially in price-sensitive international markets. Additionally, the Foreign Trade Policy (2009-14) has withdrawn dairy products under the Vishesh Krishi and Gram Udyog Yogna (VKGUY) scheme, which provided an export incentive support payment of five percent on FOB value.

Some dairy industry groups in India fear that international prices of dairy products may fall partially on account of subsidies offered by major milk producing countries. Higher dairy production costs (feed, veterinary care etc.) combined with fewer export incentives have led local industry to approach the government to request the restoration of a custom duty on milk powder to 15 percent (on 10,000 MT under the tariff rate quota) and to 40 percent on butter oil. The industry's view is that imports would result in a substantial drop in local market prices and will affect the Indian farmers as the flush season for milk production is about to start.

[1] *http://www.fssai.gov.in/Advisory/ViewAdvisory.aspx?StartDate=06/01/2009*

[2] *The export subsidy scheme covers exports of various goods to focus market countries (Latin America, Africa, and CIS etc.). The objective of the scheme is to offset high freight costs and other externalities to select international markets with a view to enhance export competitiveness in these countries. Exporters of various products to these notified countries are entitled to payment of the duty credit scrip equivalent to 2.5 percent of the FOB value of exports. Indian importers can avail the duty drawback on imports equivalent to the value of duty credit scrip.*

Production, Supply and Demand Data Statistics:

Table 1: Commodity, Dairy, Milk, Fluid, PSD

(cow numbers in 1000 head, milk production in 1000 metric tons)

Dairy, Milk, Fluid India	2008			2009			2010		
	2008			2009			2010		
	Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			Market Year Begin: Apr 2010		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan
			Data			Data			Data
Cows In Milk	38,500	38,500	38,500	38,500	38,500	38,000			38,500
Cows Milk Production	44,100	44,100	44,500	45,140	45,140	45,865			47,670
Other Milk Production	60,900	60,900	61,500	62,860	62,860	63,335			65,830
Total Production	105,000	105,000	106,000	108,000	108,000	109,200			113,500
Other Imports	0	0	0	0	0	0			0
Total Imports	0	0	0	0	0	0			0
Total Supply	105,000	105,000	106,000	108,000	108,000	109,200			113,500
Other Exports	0	0	0	0	0	0			0
Total Exports	5	5	8	5	5	5			5
Fluid Use Dom. Consum.	43,885	43,885	44,520	45,035	45,035	45,315			47,100
Factory Use Consum.	61,110	61,110	61,472	62,960	62,960	63,880			66,395
Feed Use Dom. Consum.	0	0	0	0	0	0			0
Total Dom. Consumption	104,995	104,995	105,992	107,995	107,995	109,195			113,495
Total Distribution	105,000	105,000	106,000	108,000	108,000	109,200			113,500

Table 2: Commodity, Dairy, Milk, Nonfat Dry, PSD

Dairy, Milk, Nonfat Dry India	2008			2009			2010			
	2008			2009			2010			
	Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			Market Year Begin: Apr 2010			
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan	
			Data			Data			Data	
Beginning Stocks	15	15	15	15	15	15			10	(1000 MT)
Production	345	345	345	370	370	370			400	(1000 MT)
Other Imports	0	0	0	0	0	0			0	(1000 MT)
Total Imports	0	0	0	0	0	0			0	(1000 MT)
Total Supply	360	360	360	385	385	385			410	(1000 MT)
Other Exports	38	38	35	38	38	30			35	(1000 MT)
Total Exports	38	38	35	38	38	30			35	(1000 MT)

Human Dom. Consumption	307	307	310	337	337	345			365	(1000 MT)
Other Use, Losses	0	0	0	0	0	0			0	(1000 MT)
Total Dom. Consumption	307	307	310	337	337	345			365	(1000 MT)
Total Use	345	345	345	375	375	375			400	(1000 MT)
Ending Stocks	15	15	15	10	10	10			10	(1000 MT)
Total Distribution	360	360	360	385	385	385			410	(1000 MT)

Table 3: Commodity, Dairy, Butter, PSD

Dairy, Butter India	2008			2009			2010			
	2008			2009			2010			
	Market Year Begin: Apr 2008			Market Year Begin: Apr 2009			Market Year Begin: Apr 2010			
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan	
			Data			Data			Data	
Beginning Stocks	0	0	0	0	0	0			0	(1000 MT)
Production	3,695	3,695	3,690	4,065	4,065	3,910			4,160	(1000 MT)
Other Imports	0	0	5	5	5	30			20	(1000 MT)
Total Imports	0	0	5	5	5	30			20	(1000 MT)
Total Supply	3,695	3,695	3,695	4,070	4,070	3,940			4,180	(1000 MT)
Other Exports	8	8	15	8	8	5			10	(1000 MT)
Total Exports	8	8	15	8	8	5			10	(1000 MT)
Domestic Consumption	3,687	3,687	3,680	4,062	4,062	3,935			4,170	(1000 MT)
Total Use	3,695	3,695	3,695	4,070	4,070	3,940			4,180	(1000 MT)
Ending Stocks	0	0	0	0	0	0			0	(1000 MT)
Total Distribution	3,695	3,695	3,695	4,070	4,070	3,940			4,180	(1000 MT)

Author Defined:

TABLE A: INDIAN DAIRY PRODUCTS IMPORTS IN METRIC TONS

(2007/08 & 2008/09)

DAIRY PRODUCTS	MY 2007-2008	MY 2008-2009 (Apr-Feb)
WHEY & PRODUCTS	1,003	1,055
BUTTER & OTHER FATS	973	5,029

MLK POWDERS, BABY FOODS ETC.	799	901
CHEESE & CURD	758	677
BUTTER MILK, YOGURT ETC.	143	195
CASEIN	97	58
MILK ALBUMIN	90	93
ICE CREAM	89	44
CASEIN GLUES & OTHER DERIVATIVES	52	76
MILK & CREAM (NOT CONCENTRATED)	39	1,003
TOTAL	4,043	9,131

Source: Global Trade Information Services database (GTIS)

TABLE B: TARIFF STRUCTURE FOR VARIOUS DAIRY PRODUCTS

HS CODE	ITEM DESCRIPTION	BASIC	CVD	SPL. CVD	TOTAL DUTY WITH 2+1%ec	IMPORT POLICY
04011000 - 04013000	Milk and cream, not concentrated nor containing added sugar or other sweetening matter	30	0	0	30.9	Free SanP
04021010	Milk and cream, concentrated or containing added sugar or other sweetening matter	60	0	4	68.272	Free SanP
04021020 - 04021090	Milk and cream, concentrated or containing added sugar or other sweetening matter	60	0	4	68.272	Free SanP
04022100	Not containing added sugar or other sweetening matter	60	0	4	68.272	Free SanP
040229	Other: whole milk, milk for babies, other	30	0	4	36.136	Free SanP
04029110	Condensed milk	30	8.24	4	47.611	Free SanP
04029190	Other	30	0	4	36.136	Free SanP
040299	Other: whole milk, condensed milk	30	0	4	36.136	Free SanP
0403	Buttermilk, curdled milk and cream, yogurt, kephir & other fermented or acidified milk & cream, whether or not concentrated or containing added sugar or other sweetening matter or flavored or containing added fruits, nuts or coco	30	0	0	30.9	Free SanP
0404	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified	30	0	4	36.136	Free SanP
0405	Butter and other fats and oils derived from milk; dairy spreads	30	0	4	36.136	Free SanP

04061000	Fresh (unripened or uncured) cheese, including whey cheese & curd	30	0		36.136	Free SanP
04062000	Grated or powdered cheese of all kinds	30	0	4	36.136	Free SanP
04063000	Processed cheese not grated or powdered	30	0	4	36.136	Free SanP
04064000	Blue-veined cheese and other cheese containing veins produced by Pencillium roqueforti	30	0	4	36.136	Free SanP
04069000	Other cheese	40	0	4	46.848	Free SanP

Notes: - Education cess of 2% on customs exempted on 040210, .040221, 040510 and 040590

- Education cess of 2% exempted on dairy spread with milk fat content of at least 75% but less than 80% by weight
- SanP - Sanitary import permit
- Effective Duty on for the products falling under the HS 040221 or 040210 is 9.356% under TRQ of 10,000 MT